GULFSTREAM RESOURCES

98

Annual Report

GULFSTREAM
RESOURCES

Letter from the Chairman

TO THE SHAREHOLDERS

Fiscal year 1998 was an extraordinary year for your Company and for our industry.

Gulfstream achieved record earnings of 17 cents per share, the second year in a row that record earnings have been reported. Despite these earnings, a sound cash position, increased production and reserves and excellent prospects, the Company's shares are trading at approximately one-third of their price of one year earlier.

While the North American economy has been largely oblivious to economic stresses outside the continent, in South East Asia, Russia and more recently South America, global recession has had a real impact on oil markets and the oil industry. We last saw $20 US per barrel oil in North America in November, 1997. Prices declined below $11 US per barrel in June, 1998 with close to single digits and 25-year lows last December.

The precipitous decline in commodity prices has had a serious impact on industry profitability through the year and on the temperament and outlook of the oil business. Oil equity markets have been severely discounted. While the benchmark TSE index was essentially flat at year-end compared to January, share values of oil and gas producers declined by almost 40 per cent on average and more for those companies with foreign operations and companies which are still in a pre-production stage. Most are now trading at a fraction of previous highs.

In this environment, longer-term fundamentals do not dictate stock performance and shorter-term perspectives prevail. Gulfstream has not been immune to these forces. Gulfstream's share price performance overshadows what has been an exceptional year, by all measures, for your Company.

Gross oil production increased almost 15 per cent from 1997. Income for the year exceeded 1997 levels despite the severe oil price decline, at 17 cents per share compared to 14 cents for the prior year. The cash position of the Company is strong. We have maintained our dividend. Furthermore, year-end numbers do not reflect cash and income resulting from Gulfstream's landmark settlement agreements with ARCO signed on October 5, 1998. A solid base has been established for financial performance in 1999 and beyond.

Your Company continued to advance core projects as important milestones were achieved during 1998. Expansion plans for the Al Rayyan oil project offshore Qatar were approved. Drilling re-commenced in January, 1999. Seismic work in Oman was initiated and completed and it is possible we will have a producing project before the end of the 1999 calendar year. Real progress was made towards a major gas project in Qatar. Your Management looks to the future with anticipation.

The settlement agreements of September 30 and October 5, 1998 with ARCO were undoubtedly the highlight of the year, and probably the most significant achievement in Gulfstream's history. The cost-sharing component of the agreements provides funding for the Company's largest and most prospective asset, Qatar natural gas. Furthermore, the agreements have injected cash into our Company and provide for additional cash payments into the future. This cash will support aggressive development plans for Gulfstream's shorter-term ambitions.

THE ARCO AGREEMENT

In early October, Gulfstream announced comprehensive strategic agreements with ARCO. Terms of the agreements

include the sale of Gulfstream's 25 per cent interest in the Margham gas/condensate field in Dubai for approximately $22 million, effective September 30, 1998. The field generated $3.5 million of income and cashflow to Gulfstream in 1998.

Subsequent to year-end, Gulfstream received a further $22 million for the resolving of certain contractual obligations between the two companies.

The agreements define a cost-sharing arrangement for Qatar gas whereby ARCO pays 100 per cent of Gulfstream's 27.5 per cent share of expenditures for a gas project up to 1.2 billion cubic feet per day. Gross cost for a project of this magnitude could exceed $2.3 billion. The arrangement requires no equity contribution from Gulfstream; ARCO assumes project risk and recourse is limited to project cashflow. The successful conclusion of these agreements establishes a base which should permit Gulfstream's undiluted participation in Qatar gas development in the future without erosion of shareholders equity. Gulfstream is in an enviable position for future growth.

QATAR

Gulfstream holds a 27.5 per cent interest in the Qatar Consortium which includes ARCO (Operator, 27.5 % interest), British Gas (25 %), Wintershall AG (15 %) and Preussag Energie (5 %). The Qatar Consortium has interests in four areas – North Field natural gas, Block 12 (Al Rayyan development), Block 11 and Block 13.

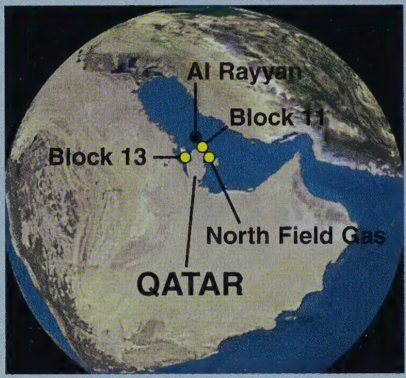
Natural Gas

The Qatar Consortium has the right to develop and transport natural gas and associated liquids from the North Field to designated Gulf markets.

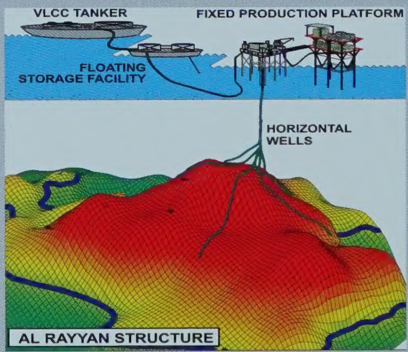
According to the terms of the existing agreement with the Government of the State of Qatar, gas will be made available to the Consortium to supply additional markets as supply arrangements are negotiated.

While elements of a gas project have been advancing for several years, the majority of this time has been expended for design, engineering, negotiation of fiscal arrangements and definition of contractual terms. Terms for a first gas contract are now defined within narrow limits, and final negotiations and documentation are proceeding. While the long preparation time has been frustrating, the value of this important project has not diminished but has increased over time for the State of Qatar and for the members of the Consortium.

QATAR



Al Rayyan Field - Oil Production Platform



The full-field development of Al Rayyan involves replacement of the existing temporary production platform with a 60,000 barrels of oil per day facility and a minimum of twelve horizontal production wells.

Letter from the Chairman

The goal of the Qatar Consortium is to establish a natural gas supply and distribution network in the Gulf region sourced from Qatar. Towards that end, the Consortium is actively pursuing additional markets. These initiatives represent a very real and very significant growth strategy for the Consortium and for Gulfstream over the longer term.

Block 12 (Al Rayyan)

Al Rayyan has been Gulfstream's most important producing asset and will continue to offer the greatest opportunity for shorter-term growth.

Commercial production commenced at Al Rayyan on January 1, 1997. The initial phase of development included four horizontal production wells, leased production facilities and floating storage, a 2,865 kilometre seismic program (completed in early 1997), and a delineation well 18 kilometres to the south of the original discovery (now in Block 11). In late 1997, three delineation wells were drilled and two horizontal production wells were added.

Production from Al Rayyan averaged 22,300 barrels per day in the 1998 fiscal year, reaching 35,000 barrels per day in December, 1997. OPEC production curtailments introduced in April, 1998 limited production from Al Rayyan to approximately 19,000 barrels per day beginning in August of the year.

Eighteen cargoes of approximately 500,000 barrels each were lifted from Al Rayyan over the fiscal year 1998. Average price was $11.55 US per barrel.

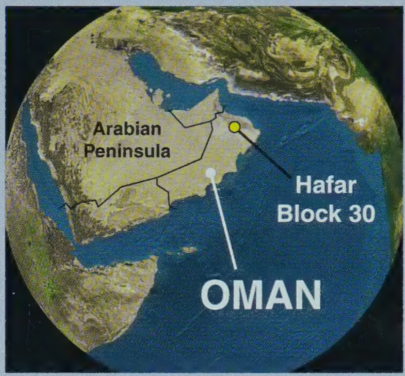
The Consortium submitted a plan for expansion of the initial phase of Al Rayyan development in early 1998 and received final approval in late September of the year. The second phase of development includes the installation of a permanent platform with a capacity of 60,000 barrels of oil per day within a two-year period. Production from existing facilities will be optimized in the meantime, with three wells (two horizontal production wells plus one re-drill) currently underway.

Block 11

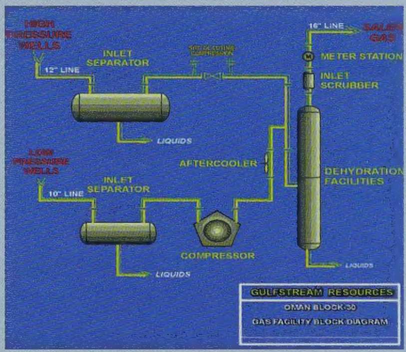
The Qatar Consortium has exclusive rights to explore for, appraise, develop, produce and sell crude oil and non-associated gas in the Block 11 area for a thirty-year period. Total area of the Block is 2,641 square kilometres.

Well ALR-8, which was drilled as a step-out to the Al Rayyan discovery in late 1996, is located in the northern portion of Block 11. The well encountered oil in a separate structure.

OMAN



Seismic Operations - Hafar Block -30



Gulfstream intends to move aggressively to advance Block 30 development and expand the reserve base through exploration. A multiple well drilling program is planned for1999. Early design of gas facilities is shown above for both high and low pressure gas streams. Plans are for a 20 kilometre tie-in to the main gas distribution line.

Letter from the Chairman

A 3,350 kilometre seismic program was completed across Block 11 in early 1997. Processing is essentially completed and several structures have been delineated – some with well control. Prospects are currently being ranked for future drilling.

Block 11 provides an avenue for expanded oil production in the medium term and an opportunity for development synergies.

Block 13

Block 13 covers 1,380 square kilometres offshore Qatar. The area has been under force majeure since 1986 owing to a border dispute with neighbouring Bahrain.

Block 13 is believed to be one of the most prospective unexplored acreages in the Gulf region and will provide an added dimension to Consortium activity and potential.

OMAN

Block 30 in Oman is a 100 per cent venture of Gulfstream Resources. It represents a diversification in the Company's core area in the Middle East and an important shorter-term asset.

Block 30 covers approximately 1,200 square kilometres in central Oman. Five wells have been drilled in this area, three intersecting hydrocarbon-bearing formations. Gulfstream plans to move aggressively to verify development potential and expand the reserve base through exploration.

A 400 kilometre seismic survey was initiated in early September, 1998 and completed in early December. Results are being processed to support drilling in 1999.

MADAGASCAR

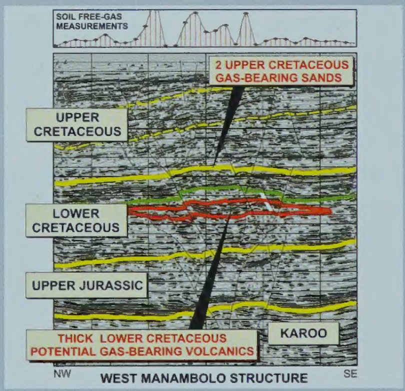
Madagascar represents a longer-term asset with mega-project potential.

Gulfstream has an 82 per cent interest at Tsiribihina and an 80 per cent interest at Antonibe, in partnership with l'Office des Mines Nationales et des Industries Strategiques (OMNIS). The terms of both agreements define exploration, development, transportation, processing and marketing activities for hydrocarbons over an extended period.

The Tsiribihina block covers 26,700 square kilometres in the onshore Morondava Basin. Several wells have been drilled in the area, most encountering natural gas. A 300 kilometre seismic program was completed over a portion of the Block in late 1997 over an area covering several prospective gas fields. Initial results from the program have been extremely encouraging.

MADAGASCAR

Seismic Operations - Tsiribihina Block



Gulfstream's seismic program at Tsiribihina has substantiated the gas potential of the Block. The above seismic line over W. Manambolo discovery well shows a soil free-gas anomoly on top of the seismic section. The Upper Cretaceous sands tested 9.8 million cubic feet per day of gas. The underlying volcanic section is also interpreted as gas-bearing.

Letter from the Chairman

The Antonibe offshore area encompasses 5,200 square kilometres in the Majunga Basin. Two wells have tested natural gas in the Block. A very large seismic anomaly is the target of initial appraisal work. An aeromagnetic survey was completed across the Block in mid-1998 and processing is underway.

OTHER

Gulfstream's interest in the Margham gas/condensate field in Dubai was sold to ARCO on September 30, 1998. A gain of $8 million was realized from the transaction net of oil and gas asset write-downs.

Plans of development for the Ramok and Senabing oil prospects and for the Sukatani gas field in Indonesia have been suspended due to the economic and political instability in the country. Gulfstream's share of accumulated expenditures were written down to an appropriate level at year-end to reflect these risks. An interest in the Al Ma'ber Block in Yemen was also written off at year-end.

OUTLOOK

The Gulfstream story in 1998 is a story of paradoxes, growth amidst of a global recession, expansion in a declining commodity market. We have moved our Company forward, uphill most of the way.

We have taken steps that we believe to be prudent in today's environment. We have consolidated our assets and strengthened our financial foundation. We remain focused on growth.

Our net debt is essentially zero. Funding in the hundreds of millions of dollars is in place to help develop our most strategic asset, Qatar gas. Our strengths are our quality assets coupled with the technical and business acumen of our people. We can now add an increased element of financial surety to that list.

We intend to continue moving forward to achieve our very significant ambitions. We look forward to the challenges, opportunities and accomplishments before us in 1999.

Yours Truly,

Chairman

Management's Discussion & Analysis

SHAREHOLDERS AND MARKET DATA

Outstanding shares at September 30, 1998 were 59.4 million, which were widely held. Market capitalization based on the closing price of $3.75 at fiscal year-end was $223 million. Gulfstream is a member of the TSE 300 and TSE 200 indices.

In December, 1998, the Company announced a dividend of two cents per common share, payable on December 31, 1998 to shareholders of record on December 16, 1998.

GROSS PROFIT

Income before tax for 1998 was $14.5 million compared to $15.0 million for the previous year. Petroleum and natural gas sales were $30.9 million compared to $34.9 million in 1997, principally due to reduced commodity prices. Gulfstream sold its interest in the Margham field in Dubai and recorded a gain of $18.1 million in 1998.

Increased production, interest and financing, depletion and depreciation charges were due to expanding operations and financing costs. Write-downs of oil and gas interests totaled $10.5 million in 1998, principally in Indonesia. Administrative expenses were lower in 1998 as additional costs were capitalized to Gulfstream's operated projects in Oman and Madagascar.

BUSINESS RISKS AND BUSINESS ENVIRONMENT

Gulfstream operates in the international oil and gas business. Expectations and performance are subject to both the rewards and risks inherent in foreign investment.

Company activities are governed by agreements with governments over a specified time period defining work obligations, relinquishments, fiscal terms, expirations and other matters of a contractual nature. Prices and sales of petroleum and natural gas are determined by international markets.

With the exception of Qatar oil, all of the Company's operations are in the pre-production stage. Commercial success is dependent on successful identification of sufficient quantities of reserves together with securing markets and obtaining financing to bring projects into production.

The Canadian dollar is the reporting currency of the Company. Subsidiaries operate in US currency.

EARNINGS AND CASHFLOW

Income tax expense declined from $7.2 million in 1997 to $4.5 million in 1998 as a result of reduced production revenues. Net earnings increased to $10.0 million in 1998 from $7.8 million in the prior year. Earnings were $0.17 per share compared to $0.14 in the previous year.

Year-end results do not reflect the agreement reached with ARCO on October 5, 1998 with respect to Qatar gas development. Financial results for 1999 and beyond will benefit from this important transaction.

LIQUIDITY, CAPITAL RESOURCES AND EXPENDITURES

Expenditures on oil & gas interests were $45.9 million in 1998, financed mostly from cash balances and internally generated cashflow. The majority of expenditures were for Al Rayyan oil development in Qatar. Cash balance at year-end was $19.7 million.

Cashflow from operating activities for 1998, before changes in non-cash working capital, contributed $7.9 million compared to $10.4 million in 1997. A working capital increase of $21.2 million is due to proceeds receivable from the disposition of Gulfstream's interest in the Margham field.

Debt at year-end was $20.8 million versus $19.6 million at September 30, 1997. This debt level compares favourably to shareholders equity of $106.3 million.

Current assets were $44.9 million, with current liabilities of $11.4 million and a working capital surplus of $33.5 million. Total assets reached $138.7 million.

YEAR 2000

Most entities depend on computerized systems and are therefore exposed to a Year 2000 conversion risk, which, if not properly addressed, could affect an entity's ability to conduct normal business operations. Management is addressing this issue, however, given the nature of this risk, it is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those with whom it deals such as customers, suppliers and other third parties, will be fully resolved without impact on the Company's operations.

Additional information respecting the Company's efforts to address the Year 2000 issue is included in the Information Circular for the March 24, 1999 Annual and Special Meeting of Shareholders, copies of which are available from the Secretary of the Corporation or through the Company's web site.

GULFSTREAM
RESOURCES

Auditors' Report

TO THE SHAREHOLDERS OF
GULFSTREAM RESOURCES CANADA LIMITED:

We have audited the consolidated balance sheet of Gulfstream Resources Canada Limited as at September 30, 1998 and 1997 and the consolidated statements of operations, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1998 and 1997 and the results of its operations and its cash flow for the years then ended in accordance with generally accepted accounting principles in Canada.

Calgary, Alberta,
December 18, 1998

Arthur Andersen LLP
Chartered Accountants

Consolidated Balance Sheet

As at September 30, 1998 and 1997

ASSETS

		1998	1997
Current Assets:			
	Cash	$ 19,707,800	$ 51,828,631
	Accounts receivable	24,826,021	3,865,387
	Crude oil and condensate inventory	357,208	740,246
		44,891,029	56,434,264
Property, plant and equipment (Note 4)		93,824,634	65,428,731
		$ 138,715,663	$ 121,862,995

LIABILITIES AND SHAREHOLDERS' EQUITY

		1998	1997
Current Liabilities:			
	Accounts payable	$ 11,378,535	$ 10,336,307
	Income taxes payable	54,563	1,706,903
		11,433,098	12,043,210
Bank indebtedness (Note 5)		20,836,560	19,615,723
Site restoration and abandonment		123,040	39,422
Commitments and contingencies (Notes 3 and 8)			
Shareholders' Equity:			
	Share capital (Note 6)	68,745,589	67,575,269
	Retained earnings	30,475,513	21,630,135
	Cumulative translation account	7,101,863	959,236
		106,322,965	90,164,640
		$138,715,663	$121,862,995

Approved by the Board:

Director

Director

The accompanying notes are an integral part of this consolidated balance sheet.

Consolidated Statement of Operations and Retained Earnings

For the Years Ended September 30, 1998 and 1997

	1998	1997
Revenues:		
Petroleum and natural gas sales	$ 30,853,365	$ 34,920,846
Gain on disposal of Dubai oil and gas interests (Note 3)	18,109,359	-
Interest and other income	1,376,277	1,478,053
	50,339,001	36,398,899
Expenses:		
Production	16,706,104	15,437,157
Interest and financing	1,818,138	675,444
Administration (Note 4)	1,335,648	2,372,589
Depletion and depreciation	5,462,147	2,900,615
Write-down of oil and gas interests (Note 3)	10,542,817	-
	35,864,854	21,385,805
Income before provision for income taxes	14,474,147	15,013,094
Provision for income taxes (Note 7)	4,451,929	7,182,827
Net income	$ 10,022,218	$ 7,830,267
Net income per common share (Note 6):		
Basic and fully diluted	$ 0.17	$ 0.14

Retained earnings, beginning of year	$ 21,630,135	$ 14,353,519
Net income	10,022,218	7,830,267
Dividends	(1,176,840)	(553,651)
Retained earnings, end of year	$ 30,475,513	$ 21,630,135

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flow

For the Years Ended September 30, 1998 and 1997

	1998	*1997*
Operating activities:		
Net income	$ 10,022,218	$ 7,830,267
Depletion and depreciation	5,462,147	2,900,615
Write-down of oil and gas interests	10,542,817	-
Gain on disposal of Dubai oil and gas interests	(18,109,359)	-
Non-operating items	-	(345,085)
	7,917,823	10,385,797
Change in non-cash working capital	(21,187,708)	6,047,718
	(13,269,885)	16,433,515
Financing activities:		
Proceeds from issue of common shares	1,170,320	43,958,685
Increase in bank indebtedness	1,220,837	19,615,723
Dividends paid	(1,176,840)	(553,651)
	1,214,317	63,020,757
Investing activities:		
Additions to oil and gas interests, net	(45,871,748)	(32,166,773)
Additions to fixed assets, net	(2,202,273)	(472,434)
Effect of foreign exchange rate changes	6,142,627	959,236
Proceeds on disposal of oil and gas interests	21,866,131	-
Proceeds on sale of marketable securities	-	526,755
	(20,065,263)	(31,153,216)
(Decrease) increase in cash	(32,120,831)	48,301,056
Cash, beginning of year	51,828,631	3,527,575
Cash, end of year	$ 19,707,800	$ 51,828,631

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS

Gulfstream Resources Canada Limited is a holding company. Through its subsidiaries the principal business is to acquire, develop, exploit, process and transport gas and oil. Gulfstream Resources Canada Limited and its subsidiaries are collectively referred to as "Gulfstream" or "the Company".

Commercial development of all cost centres, with the exception of Dubai and Qatar oil operations (Note 3), is dependent on successful identification of sufficient quantities of reserves, together with securing of markets for gas, oil and liquids, as well as obtaining the financing to bring the projects into production.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Gulfstream Resources Canada Limited and its direct and indirect wholly-owned subsidiaries.

Joint ventures

The majority of oil and gas activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

Oil and gas interests

The Company follows the Canadian full cost method of accounting for oil and gas interests whereby all costs of exploring for and developing oil and gas reserves are capitalized and accumulated in country-by-country cost centres. Capitalized costs include expenditures for land and concession acquisition, carrying and retaining undeveloped properties, geological and geophysical activities, drilling productive and non-productive wells, consulting services, interest costs on unproved properties and major development projects, and general and administrative costs relating to oil and gas activities.

a. Limitation on capitalized costs

For projects that have not yet reached commercial development, capitalized costs in each cost centre are assessed annually for recoverability. Capitalized costs that are considered unlikely to be recovered are written off. Revenues are offset against capitalized costs of the related cost centre until quantities of proven reserves are determined and commercial production has commenced.

When a cost centre has developed commercial quantities of proven oil and gas reserves, the capitalized costs of oil and gas interests are subject to a ceiling limitation test. Costs accumulated for each cost centre, less accumulated depletion and depreciation, are limited to the undiscounted estimate of future net revenues from production of proven reserves, plus the net cost of major development projects and the cost less impairment of unproven properties. Future net revenues are determined after provision for expenses including royalties, direct operating costs, future development expenditures and the cost of site restoration. Year-end costs and prices are used, except during periods of rapid fluctuations when more representative average prices may be used.

Proceeds from the disposition of oil and gas interests in commercial production are deducted from the cost centre, unless the disposition results in a significant change in the depletion rate, in which case a gain or loss on disposal is recognized. Costs accumulated in all cost centres, less accumulated depletion and depreciation, are limited to the total future undiscounted net revenue on a consolidated worldwide basis plus the net cost of major development projects and unproven properties less estimated future interest expense, administrative costs and income taxes attributable to those operations.

b. Depletion and depreciation and provision for future site restoration

When commercial production commences, costs accumulated in a cost centre, including provision for necessary future development expenditures, are depleted and depreciated using the unit-of-production method over the life of estimated proven reserves. Excluded from these costs and reserves will be significant development projects prior to commencement of commercial production, and unimpaired expenditures on significant exploration projects pending an assessment of the existence of proven reserves.

All oil and gas cost centres, with the exception of Dubai and Qatar oil operations (Note 3), are in the pre-production stage and the related capitalized costs with a carrying value of approximately $58 million (1997 - $29 million) are not currently subject to depletion and depreciation.

Estimated future site restoration costs are provided for using the unit-of-production method over the life of estimated proven reserves. The provision is included in depletion and depreciation expense and costs are estimated by the Company based on current regulations, costs, technology and industry standards. Site restoration expenditures incurred are recorded as a reduction of the accumulated provision.

The amounts recorded for depletion and depreciation of oil and gas interests and for site restoration and reclamation are based on estimates of reserves and future costs. By their nature, these estimates and those related to the future cash flows used in the full cost ceiling limitation test are subject to measurement uncertainty and the impact of the uncertainty on the financial statements could be material.

Fixed Assets

Fixed assets are recorded at cost and are depreciated on a straight-line basis over three years.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of crude oil and condensate inventory is determined based on average lifting costs.

Foreign Currency Translation

The assets and liabilities of foreign operations considered financially and operationally independent are translated into Canadian dollars from their primary currencies using exchange rates at the balance sheet date. Revenue and expense items are translated using the average rates of exchange throughout the year. Gains and losses resulting from this translation process are deferred and included in the cumulative translation account in Shareholders' Equity.

Transactions and monetary balances denominated in a currency other than a primary currency are translated into the primary currency using month-end exchange rates. Gains and losses resulting from this translation process are included in income.

Notes to Consolidated Financial Statements

3. SEGMENTED INFORMATION

(Thousands) 1998	Qatar	Dubai	Madagascar	Oman	Indonesia	Other	Consolidated
Revenues	$ 21,457	$ 27,506	$ -	$ -	$ -	$ -	$ 48,963
Operating profit	$ 3,817	$ 23,457	$ -	$ -	$(9,200)	$(1,342)	$ 16,732
General corporate expenses							(3,634)
Interest and other income							1,376
Income taxes							(4,452)
Net income							$ 10,022
Identifiable assets	$ 73,949	$ 21,866	$ 11,485	$ 9,419	$ 2,106	$ -	$118,825
Corporate assets							19,891
Total assets							$138,716

(Thousands) 1997	Qatar	Dubai	Madagascar	Oman	Indonesia	Other	Consolidated
Revenues	$ 16,975	$ 17,945	$ -	$ -	$ -	$ -	$ 34,920
Operating profit	$ 6,191	$ 10,641	$ -	$ -	$ -	$ -	$ 16,832
General corporate expenses							(3,297)
Interest and other income							1,478
Income taxes							(7,183)
Net income							$ 7,830
Identifiable assets	$ 48,545	$ 3,528	$ 3,226	$ 1,192	$ 10,217	$ 1,510	$ 68,218
Corporate assets							$ 53,644
Total assets							$121,862

Gulfstream participates in oil and gas activities as a joint venture partner with other companies and is contractually committed under various agreements to complete investment expenditures in order to maintain its interests.

a. Qatar

Gulfstream has a 27.5% participation interest in the Qatar Exploration and Production Sharing Agreement (the "Qatar EPSA") and related amendments to the EPSA with the Government of Qatar.

At September 30, 1998, the consortium has unrecovered costs of approximately U.S. $166 million (1997 - U.S. $141 million) that are recoverable from any future production. Gulfstream's interest in the unrecovered costs is approximately U.S. $56 million (1997 - U.S. $53 million).

(i) Oil

Effective January 1, 1997 management determined that Qatar oil achieved commercial production.

(ii) Gas

Effective July 16, 1997 Gulfstream entered into Amending Agreement No. 1 to the original Qatar EPSA. The amending agreement grants to the consortium the exclusive right to explore for, develop, produce and transport non-associated gas, condensate and liquefied petroleum gas (LPG) from the Gas Area.

In addition to its own 27.5% interest, Gulfstream incurred on behalf of a third party pre-development costs of U.S. $604,000; and had agreed to incur on behalf of the third party 3.02% development costs up to a maximum of U.S. $18,132,000 once a final decision had been made to develop a commercial gas project, such costs being recoverable from any future production. Further, Gulfstream had agreed to reimburse the operator a total of U.S. $13.9 million (secured by a letter of credit from Gulfstream) for amounts owing to a third party upon development of a commercial gas project. As a result of the agreement executed on October 5, 1998 (see Note 11a.), the Company no longer has the obligations of U.S. $18,132,000 and U.S. $13.9 million referred to above.

Costs of approximately U.S. $19.1 million incurred and capitalized within the Qatar cost centre related to the development of the natural gas reserves continue to be classified as a major development project and are therefore excluded from costs subject to depletion and depreciation.

(iii) Block 11 EPSA

Gulfstream has a 27.5% participation interest in the Qatar Exploration and Production Sharing Agreement for Offshore Block 11, (the "Block 11 EPSA"). The Block 11 EPSA grants the consortium the exclusive rights to explore for, appraise, develop, produce and sell crude oil and non-associated gas. The term of the Block 11 EPSA is for a period of thirty years from July 16, 1997 with possible extensions of five years each.

Terms of the Block 11 EPSA require the consortium to conduct a 2000 square kilometre seismic program, to reprocess 500 square kilometres of existing seismic data and drill a minimum of two exploration wells during the first four years of the contract period.

b. Dubai

The Company was assigned by Atlantic Richfield Company a 25% undivided interest in the Margham Concession effective July 31, 1994. Effective September 30, 1998, the Company disposed of its interest in the Margham Concession for proceeds of approximately $21,866,000 received on October 5, 1998, resulting in a gain of approximately $18,109,000.

c. Madagascar

Letters of Agreement between the Office des Mines et des Industries Strategiques(OMNIS) and Gulfstream were executed on October 5, 1995. Gulfstream and OMNIS entered into a joint operating agreement dated July 14, 1997. These Agreements establish a joint venture association and the parties' rights and obligations for the purpose of prospecting for, researching, exploiting, transporting, processing and marketing of hydrocarbons located within the offshore Majunga Basin called the Antonibe Area and the onshore Morondova Basin called the Tsiribihina Area. In the Antonibe Area, the Company is responsible for 97.5% of the capital costs and has a participating interest of 79.95% before a 200% risked payout, decreasing to 48.75% after payout. In addition, in the Antonibe Area the Company has agreed to incur on behalf of a third party 2.50% of the capital costs, which are recoverable from any future production. In the Tsirbihina Area, the Company is responsible for 100% of the capital costs and has a participating interest of 82% before a 200% risked payout, decreasing to 50% after payout. Gulfstream is designated as the Operator.

The Company's minimum financial obligation to develop the Madagascar properties requires total capital expenditures of approximately U.S.$13,650,000, of which approximately U.S. $7,000,000 has been incurred to September 30, 1998.

d. Oman

Gulfstream entered into an Exploration and Production Sharing Agreement (EPSA), dated July 26, 1997, with the Government of the Sultanate of Oman. The Oman EPSA grants to Gulfstream, subject to the terms of the agreement, the exclusive right to explore for, develop and produce petroleum within the Block 30 (Hafar) contract area, and sell or dispose of its share of the petroleum discovered. Gulfstream's initial term financial obligation requires expenditures of at least U.S. $8,000,000 primarily related to processing of seismic data and drilling of an exploratory well, and a signature bonus payment of U.S. $1,500,000, payable to the Government. The initial term of the agreement extends for three years from October 6, 1997, the date of issue of the Royal Decree by His Majesty The Sultan ratifying the agreement, and is extendible for an additional three years upon payment of a U.S. $500,000 renewal bonus. At September 30, 1998, approximately U.S. $4,200,000 has been incurred.

Upon the first declaration of a commercial discovery, Gulfstream is required to pay bonuses of U.S. $1,000,000 to the Government and U.S. $1,400,000 to a consultant. In addition, Gulfstream is required to pay the Government a production bonus of U.S. $2,000,000 on the first anniversary of first commercial production.

e. Indonesia

On November 24, 1995, Farmout Agreements, Technical Assistance Contracts and Operating Agreements covering the Ramok Senabing and Sukatani Fields in Indonesia were executed by the Company and P.T. Radiant Ramok Senabing, and P.T. Radiant Energi Sukatani. Pursuant to the Farmout Agreements, the Company acquired a 40% interest in the rights and obligations of P.T. Radiant Ramok Senabing which holds a 100% interest in the Technical Assistance Contract covering the Ramok and Senabing Fields in Indonesia, and a 40% interest in the rights and obligations of P.T. Radiant Energi Sukatani which holds a 100% interest in the Technical Assistance Contract covering the Sukatani Field in Indonesia. The Company wrote down its capitalized costs by approximately $9,200,000 in 1998, due to current economic events. There is uncertainty as to the recoverability of the remaining capitalized costs of $2,106,000, and is dependent upon a return to a stable economic environment in Indonesia.

f. Other

During 1998, the Company's participation rights in Block 2 Shabwa Province, Republic of Yemen were relinquished and, as a result, capitalized costs of approximately $1,342,000 were written off.

g. Corporate

The assets of Gulfstream Resources Canada Limited consisting primarily of cash are included as corporate assets.

Note to Consolidated Financial Statements

4. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Interests		*Fixed Assets*	
	1998	*1997*	*1998*	*1997*
Cost	$ 99,045,967	$ 67,473,808	$ 3,301,795	$ 1,099,522
Depletion and depreciation	(7,677,535)	(2,774,559)	(845,593)	(370,040)
Net carrying value	$ 91,368,432	$ 64,699,249	$ 2,456,202	$ 729,482

The Company capitalized interest on unproved properties and major development projects of approximately $788,000 (1997 – $230,000) and general and administrative expenses of approximately $3,004,000 (1997 - $946,000).

5. BANK INDEBTEDNESS

The Company obtained a U.S. $37 million credit facility with a consortium of major international banks of which U.S. $5,600,000 was outstanding at September 30, 1998. The facility is committed on a revolving basis to January 9, 2001. Interest on the facility is dependent on debt to cashflow ratios, and ranges between LIBOR plus 1.25% to 1.75%. U.S. dollar prime rate borrowing is also available at interest rates between U.S. prime rate plus 0.25% to 0.75%. The credit facility is secured by a floating charge on the assets of Gulfstream Resources Canada Limited, supported by guarantees from certain subsidiaries and is subject to the maintenance of specified financial ratios.

The Company has designated the U.S. dollar denominated debt as a hedge of the net investment in self-sustaining foreign operations and has therefore included the effects of foreign exchange from the translation of the debt into Canadian dollars in the cumulative translation account.

At September 30, 1998, the Company has issued a standby irrevocable letter of credit totaling U.S. $13.9 million against the credit facility (see Note 3(a)).

For the year ended September 30, 1998, interest expense on long-term debt was approximately $714,000 (1997 - $581,000).

6. SHARE CAPITAL

a. Authorized

An unlimited number of common shares.

b. Issued and outstanding

	Common Shares	Amount
Balance, September 30, 1996	55,177,098	$ 23,616,584
Private placement, net of issue costs	3,000,000	42,616,995
Exercise of options	620,000	1,341,690
Balance, September 30, 1997	58,797,098	67,575,269
Exercise of options	619,000	1,170,320
Balance, September 30, 1998	59,416,098	$ 68,745,589

c. Issued and outstanding warrants to purchase common shares

Outstanding at September 30, 1998 are warrants to purchase 50,000 common shares at an exercise price of $7.22 per share, expiring February 16, 2001.

d. Outstanding options issued to officers, employees, consultants and directors to purchase common shares

Issued	*Expiry Date*	*Exercise Price ($)*	*Balance, Sept. 30, 1997*	*Issued in Fiscal 1998*	*Exercised in Fiscal 1998*	*Cancelled in Fiscal 1998*	*Balance, Sept. 30, 1998*
Aug/94	Aug. 17, 2004	1.24	1,027,000	-	330,000	-	697,000
Apr/95	Apr. 4, 2005	1.58	120,000	-	-	-	120,000
May/95	May 1, 2005	2.08	2,110,000	-	224,000	16,000	1,870,000
Oct/95	Oct. 5, 2005	3.60	347,000	-	36,000	-	311,000
July/96	July 10, 2006	5.25	970,000	-	26,000	6,000	938,000
July/97	July 16, 2007	9.70	595,000	-	3,000	5,000	587,000
Oct/97	Oct. 23, 1999	11.30	-	25,000	-	-	25,000
Feb/98	Feb. 2, 2000	7.55	-	20,000	-	-	20,000
Mar/98	Mar. 24, 2008	6.90	-	595,000	-	-	595,000
			5,169,000	640,000	619,000	27,000	5,163,000

e. Net income per common share

The weighted average number of common shares outstanding for the basic and fully diluted earnings per share calculations for the year ended September 30, 1998 was 59,227,657 (1997 – 57,613,591) and 64,579,098 (1997 – 63,966,098) respectively.

7. INCOME TAXES

The majority of operations are conducted in foreign jurisdictions and substantially all income is earned outside Canada. The following table reconciles the expected Canadian income taxes, as if all income was earned in Canada, to the provision recorded in the financial statements.

		1998	1997
Income before provision for income taxes		14,474,147	15,013,094
Combined Canadian federal and provincial income tax rate		44.6%	44.6%
Expected tax provision		6,455,470	6,695,840
Effect of:	Capital gain on sale of Dubai oil and gas interests	(8,076,851)	-
	Write-down of oil and gas interests	4,702,096	-
	Rate differences in foreign jurisdictions	1,166,674	290,866
	Losses not recognized for tax accounting	114,834	112,152
	Large corporation tax	89,706	83,969
Provision for income taxes		$ 4,451,929	$ 7,182,827

Notes to Consolidated Financial Statements

The Company has non-capital and capital losses for Canadian income tax purposes, which may be available to reduce taxable income of future years. A summary of these losses, calculated on an accounting basis, is:

a. Non-capital losses for income tax purposes expiring in:

	1999	$ 332,000
	2000	2,440,000
	2001	2,027,000
	2002	447,000
	2003	426,000
	2004	678,000
	2005	375,000
		$ 6,725,000
b. Realized capital losses which may be carried forward indefinitely to reduce taxable capital gains of future years		$ 471,284

The potential benefit associated with these losses has not been recognized in the consolidated financial statements.

Gulfstream's income tax filings are subject to audit by taxation authorities. There are audits in progress and items under review, some of which may increase the tax liability of the Company. The ultimate results of these items cannot be ascertained at this time. Management is of the opinion that it has adequately provided for income taxes based on all information that is currently available.

8. YEAR 2000 ISSUE

Most entities depend on computerized systems and therefore are exposed to a Year 2000 conversion risk, which, if not properly addressed, could affect an entity's ability to conduct normal business operations. Management is addressing this issue, however, given the nature of this risk, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company and those with whom it deals such as customers, suppliers, or other third parties, will be fully resolved without adverse impact on the Company's operations.

9. FINANCIAL INSTRUMENTS

Financial instruments are comprised of accounts receivable, accounts payable and bank indebtedness.

a. *Credit risk*

A substantial portion of the Company's accounts receivable are with customers and joint venture participants in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the credit risk associated with these customers and participants.

b. *Interest rate risk*

The Company is exposed to interest rate risk as all of its bank indebtedness is based on floating interest rates. At September 30, 1998, the weighted average interest rate is 6.9%.

c. *Fair values of financial assets and liabilities*

The fair values of financial assets and liabilities that are included in the consolidated balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

10. COMPARATIVE FIGURES

Certain comparative information has been reclassified to conform to the presentation adopted at September 30, 1998.

11. EVENTS SUBSEQUENT TO SEPTEMBER 30, 1998

a. On October 5, 1998 the Company executed a comprehensive strategic agreement with Atlantic Richfield Company and ARCO Qatar Inc. (collectively "ARCO"). Under the terms of the agreement, the Company received net proceeds of U.S. $9 million on October 5, 1998 for the re-negotiation of certain contractual obligations, which will be recognized as income in fiscal 1999. In addition, the Company and ARCO have entered into a cost-sharing arrangement whereby, at the Company's option, ARCO has agreed to fund all of the Company's 27.5% share of capital costs for the construction of the first Qatar gas gathering and producing facilities project up to a size of 1.2 billion cubic feet of gas per day. The agreement requires no additional capital contribution from the Company and recourse is limited to cashflow proceeds from the gas project.

b. On December 8, 1998 the Company declared a dividend of two cents per share to be paid on December 31, 1998 to shareholders of record on December 16, 1998.

Corporate Information

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PARTNER
Bennett Jones
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John H. Craig
PARTNER
Cassels, Brock & Blackwell
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Steven F. Johnson
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J. Angus Mckee
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Douglas G. Stoneman
FORMERLY, EXECUTIVE V.P. & DIRECTOR
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FORMERLY, PRESIDENT & C.E.O.
Prism Sulphur Corporation
Victoria, Canada

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CHAIRMAN

J. Andrew McKee
EXECUTIVE VICE PRESIDENT
CHIEF OPERATING OFFICER
SECRETARY TO THE BOARD

John S. Burns, Q.C.
ASSISTANT SECRETARY TO THE BOARD

James R. Hart
TREASURER

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DRESDNER BANK CANADA
SOCIÉTÉ GÉNÉRALE (CANADA)

TRANSFER AGENT

CIBC MELLON TRUST CO.
Calgary, Canada

SOLICITORS

BENNETT JONES
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STOCK EXCHANGE

THE TORONTO STOCK EXCHANGE
Symbol: GUR

INTERNET ADDRESS

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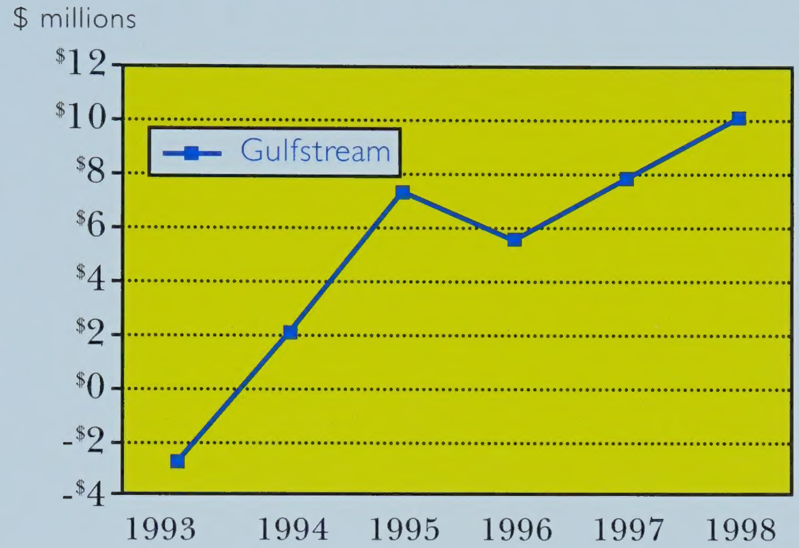
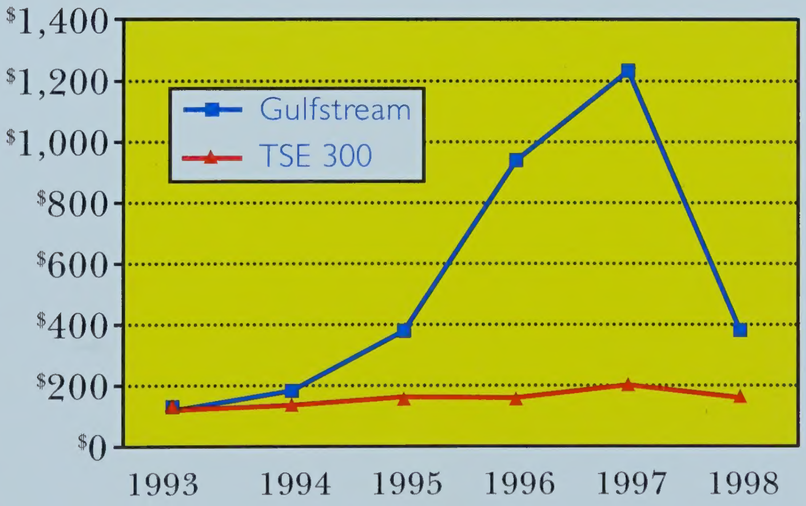
Earnings Performance



Share Performance

Cumulative Value of $100 Investment



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